

# **MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

**December 16, 1997**

The Capital Projects and Bond Oversight Committee met on Tuesday, December 16, 1997, at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Tom Buford, Bob Leeper, and Denny Nunnolley; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Roger Burge, Ron Carson, Bill Hintze, and James Ramsey, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Marilyn Eaton-Thomas, Mary Lassiter and Don Mullis, Office of Financial Management and Economic Analysis; Ron Greenberg, Leonard Hardin, Sherron Jackson, Norma Northern, and Ken Walker, Council on Postsecondary Education; David Bratcher, Economic Development Cabinet; Melanie Bailey and Dr. William Martin, Natural Resources and Environmental Protection Cabinet; Art Boebinger and Jim Owens, Department of Fish and Wildlife Resources; Bob Bender, Department of Parks; Dr. Bob Tarvin, School Facilities Construction Commission; Mary Allen and Ken Clevidence, University of Kentucky; Jack Affeldt, Kim Burch, and Dan Risch, LRC.

LRC Staff: Mary Lynn Collins, Pam Lester, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the November 18, 1997, meeting as submitted. The motion was seconded by Senator Leeper and passed by voice vote.

recent action to permit the University of Kentucky (UK) to use the University Restricted Funds Bond Pool authorization for the issuance of \$1 million in bonds for the renovation of laboratory space in the College of Dentistry.

Mr. Hintze said this project is to be funded from agency-supported bonds. He said the Council on Postsecondary Education (CPE) is empowered to select individual projects from a \$35 million biennial bond pool authorized by the 1996 General Assembly and to be supported by the universities' own resources. Once CPE has selected projects, they are reported to the Secretary of the Finance Cabinet, who must affirm and recommend the selections to the State Property and Buildings Commission and to the Capital Projects and Bond Oversight Committee. He said the recommendation being discussed today brings the total amount of projects allocated from the authorized bond pool to \$25,321,000.

In response to a question from Chairman Damron, Mr. Hintze said other universities will have the opportunity through June 30, 1998, to receive approval to issue bonds from the residual bond pool which has nearly \$10 million in authorization remaining. Mr. Jackson added that CPE has asked the universities if they plan to request additional authority to issue agency bonds. He said, based on the responses of the institutions, CPE does not expect requests for additional agency bonds.

Chairman Damron said House Bill 379 requires that projects approved for funding from the authorized bond pool be reported to the Committee, but no further action is required.

Chairman Damron said the next item on the agenda was a report by the Council on Postsecondary Education regarding the Council's capital recommendations for the 1998-2000 biennium. He introduced Mr. Leonard Hardin, Chair of the Council; Mr. Ron Greenberg, Chair of the Council's Investments and Incentives Committee; Dr. James Ramsey, State Budget Director, Transition Team Chair for the Kentucky Community and Technical College System, and Special Assistant to the Council's Chair; and Mr. Ken Walker, Acting Chief Operating Officer for the Council.

Mr. Hardin said because of House Bill 1, enacted by the General Assembly in the recent Special Session on postsecondary education, the new CPE has a better defined

achieve these goals is through use of the Research Trust Fund, established in the recent Special Session and initially funded with \$6 million in state funds to be matched by the University of Louisville (UL) and the University of Kentucky (UK), with a 2 to 1 match.

Mr. Greenberg said the Council has come up with a new innovative way to bring UK and UL up to top research levels very quickly, rather than over a 20-year period. He said the Council is recommending the state issue \$100 million in bonds to fund the Research Trust Fund which would be matched by the private sector. The money would be used to establish endowed professorships. He used a recent newspaper article concerning Bristol Myers to demonstrate the benefits of such action. Bristol Myers is looking to double its drug development efforts and wants to increase its number of researchers from 4,000 to 6,000 over the next five years. Mr. Greenberg said there is no reason these researchers could not be in Kentucky. If Kentucky could develop a research talent pool that is significant, the state can attract Bristol Myers and other major pharmaceutical companies to do research and production work in Kentucky. He explained with a fund pool of \$100 million from the state, and a match of \$100 million from the private sector, CPE can develop new industry and new jobs for Kentucky.

He said in Louisville, the private sector stands ready to commit \$50 million as a match, and he thinks Lexington could do the same. Mr. Greenberg said CPE is ready to use all of its resources to ensure that UL and UK will be able to meet their match and to grow at an accelerated rate.

In a similar vein, Mr. Greenberg said the Council proposes a \$10 million bond issue to fund the Regional Trust Fund and to establish endowed chairs for the regional universities. CPE has asked each school to identify a program of excellence so they can help the regional schools develop nationally-recognized programs.

Mr. Greenberg stressed the multiplier effect to be gained when research programs attract various players. He said they believe a conservative estimate of the multiplier effect in this case is 4 to 1. With the initial \$100 million investment, over \$1 billion would be generated in terms of economic activity within a 10-year period.

Representative Wayne asked how CPE arrived at the \$100 million figure in regards to the Research Trust Fund. Mr. Greenberg responded that in order to attract

Representative Wayne commended CPE for its vision and creativity in developing its proposal. He said the proposal transcends politics, and by issuing bonds, it transcends any particular administration or legislature by locking it in and putting money up front to jump start the program. He said by improving the institutions of higher learning in Kentucky, the quality of life for Kentuckians is enhanced.

Senator Leeper expressed concerns about what he described as essentially borrowing money to invest. Dr. Ramsey said that under the Council's proposal, 48 to 50 endowed professorships could be funded immediately. In contrast, he noted currently there are only 23 endowed professorships at UK and UL. Dr. Ramsey said in this instance, CPE has taken the position that bonds will be used to invest in human capital. He added that the Governor and CPE believe the key to long-term economic development in Kentucky is investment in its people. He said after talking to the state's bond counsel, it has been concluded the proposed bonds must be taxable issues. He said if they can raise \$100 million in new capital from the state and match it with \$100 million from the private sector, they could set up an endowment where the \$200 million could be invested at a rate of return of 10% annually, earning arbitrage over the borrowing costs.

Mr. Greenberg said although this is a risky proposition, the reward from this program would include attracting over a thousand professionals to the state over a ten-year period, and the ancillaries these professionals would bring far outweigh the risks of the program. Mr. Greenberg said if the program is a total failure, the worst thing that will happen is Kentucky will attract a pool of professionals to the state where industry would be looking for those professionals.

In response to a question from Senator Leeper, Mr. Greenberg said CPE has met with the Louisville Chamber of Commerce and with specific hospitals in Louisville, and they have commitments for a full \$50 million match that would be required for UL. He added that Lexington is working on meeting UK's match. In response to another question by Senator Leeper, Mr. Greenberg said most of the researchers will be at UL and UK, and the infrastructure for these researchers is already being developed. UL has a building now under construction that will contain 120,000 sq. ft. for research purposes, and is requesting a second research building with 125,000 sq. ft., which has been recommended by CPE. He added that UK has requested additional research space also.

Dr. Ramsey said the proposal is consistent with the goals of House Bill 1, and while it may appear that the benefits of the proposal in the short-term are limited to UK and UL, he said there are other initiatives recommended by the Council which should benefit all regions of the state by increasing access to postsecondary education.

He explained a comprehensive access plan is being developed to improve both physical access, as well as access by technology. Dr. Ramsey said the initiatives include development of the Virtual University and enhancement of financial aid. He said the goal is for UK and UL to focus on enhancement of their research programs and for the regional universities and for Kentucky Community and Technical College System (KCTCS) to focus on access issues.

Chairman Damron asked if the General Assembly will be involved in making the decision as to which programs will be funded from the proposed bonded endowments. Mr. Greenberg said he hopes the decisions will go through CPE. He noted the new CPE has no regional or institutional representation, and will take a broad-based approach of looking at all schools and at all levels of postsecondary education. Mr. Greenberg added they are suggesting new governing structures for the endowments to include representatives of the private sector, government, and universities. He assured Committee members if the two local communities are each putting up \$50 million, a lot of people will scrutinize the project to ensure the most judicious allocation with the greatest payoff possible.

Chairman Damron said when House Bill 1 was passed, there was no talk of a \$200 million bond project for endowed professorships, and bond issues, in general, are very difficult to get approved by the General Assembly. He noted one thing very different about this proposal is that projects to be funded by the bond issue will not be identified as line-items in an enacted budget. He said it will be difficult to ask the legislature to vote for a major bond issue without identifying how the proceeds of the bond issue will be utilized.

Chairman Damron asked if any other state has issued such a bond issue and tried to generate investment money this way. Mr. Greenberg responded that no other state has done this, and Kentucky would be unique in its efforts.

Senator Leeper asked if the Kentucky Community and Technical College System (KCTCS) plans to request a lump sum for its funding needs in January, without identifying specific projects. Dr. Ramsey responded that CPE was under deadlines to have its budget submitted in early November, and because, at that time, the new Board was not completely organized, CPE did not recommend individual projects, but instead recommended a pool of \$50 million for new construction. However, he said the KCTCS Board's finance committee will meet on December 23, and will recommend specific projects to the full Board of Regents at its January meeting. Dr. Ramsey said project recommendations will then be discussed at CPE's January 11 meeting and will be included in the Governor's budget recommendation to be submitted on January 20.

Chairman Damron asked if CPE is considering funding a maintenance pool in the 1998 Session. Dr. Ramsey said CPE has recommended to the Governor \$25 million to create a maintenance pool to be matched dollar for dollar by the universities. That recommendation also includes a requirement for each university to submit a preventative maintenance program plan.

Chairman Damron asked if CPE is planning to make any changes in the way it reviews and reports on capital projects. Dr. Ramsey responded no changes are anticipated.

Representative Marcotte asked about the state's current bonded indebtedness, and what it will be if CPE's proposals are passed. Dr. Ramsey said the Finance and Administration Cabinet is working on that issue, and will make either a formal presentation or a written report to the Committee.

Chairman Damron noted that the Finance and Administration Cabinet has always provided an excellent report on the state's bonding capacity. He added the legislature, over the last four or five years, has retired more debt than it has authorized in new debt. He said this is a very positive step, and has positively affected Kentucky's bond ratings.

Chairman Damron asked if the State Investment Commission would handle the investments of proceeds for the endowment bond issues. Dr. Ramsey said that decision has not been made, but more investment flexibility than that of the State Investment Commission is needed. He noted university foundations have more flexibility and are

Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Mr. Armond Russ, Commissioner of the Department for Facilities Management, then reported on three projects submitted to the Committee by the Finance and Administration Cabinet.

The first item Mr. Hintze reported was an unbudgeted research/scientific equipment purchase for Western Kentucky University (WKU). WKU plans to purchase a FDM 2000 Rapid Prototyping System to be used for converting design files into plastic components that are used as prototypes to identify potential production problems. Mr. Hintze said a private firm, Stratasys, Inc., will pay \$85,000 (50%) of the cost of the equipment, and the National Science Foundation will pay the remaining portion of the cost.

Next, Mr. Hintze updated the Committee on a previously approved marina improvement project at Buckhorn Lake State Park. He said an allocation of \$61,600 from the Capital Construction and Equipment Purchase Contingency Account was approved for this project at the Committee's October meeting to fund a cost overrun and to permit the contract award to the low bidder. He said when an investigation by the Department for Facilities Management indicated it was questionable as to whether the contractor could complete the marina improvement project on time and within budget, the Department did not award the contract and returned the funds to the contingency account. He said the project will be rebid next year.

The final project Mr. Hintze discussed was a Heritage Land Conservation Fund project. Mr. Hintze said this project involves the survey of approximately 33,200 acres known as the Peabody Wildlife Management Area in Ohio and Muhlenberg Counties. He said the Heritage Land Conservation Board has allocated \$529,000 to the Department of Fish and Wildlife Resources for the survey.

Chairman Damron asked why it costs so much to survey the land. Mr. Jim Owens, Department of Fish and Wildlife Resources, said the survey involves over 100 miles of boundary, and the \$529,000 is an estimate of the cost. Mr. Owens said they will not know the actual cost until they select a surveyor and a contract is negotiated.

Committee. He said when large tracts of land are taken off the tax rolls, it can have a devastating effect on school districts' budgets and future planning.

Next, Mr. David Bratcher, Economic Development Cabinet, discussed an economic development bond (EDB) project. He said the EDB project is a \$3 million grant for Vencor, Inc., and is an incentive for Vencor to keep and expand its headquarters in downtown Louisville. Mr. Bratcher said the \$3 million grant will be used in conjunction with \$62 million provided by Vencor to construct a 486,000 sq. ft. building. The EDB grant will be awarded to the City of Louisville, and the city will lend the money to Vencor on a forgivable basis. He said the terms of the loan are 0% for 12 years, and it will be forgiven at the rate of \$250,000 per year for each of the 12 years. He said a condition of the loan is that Vencor will provide security in the form of real estate for the loan, and will maintain at least 265 employees until a Certificate of Occupancy for the new building is obtained. After that, they will create another 635 new jobs for a total of 900 jobs. In order for the loan to be totally forgiven, these jobs must be retained until the year 2010.

Chairman Damron noted that Jefferson County's unemployment rate is 4.1%, compared to a state rate of 5%, and asked if EDB funds are generally reserved for areas with a higher unemployment rate than the state's average unemployment rate. Mr. Bratcher responded that the Kentucky Rural Economic Development Act (KREDA) program and other programs target high unemployment areas, but EDB grants are not reserved for areas with high unemployment. However, he said, the Cabinet does try to limit the use of EDB grants in low unemployment areas. He noted the Vencor proposal was a negotiated transaction between the city, the county, the state, and the company.

Senator Buford made a motion to approve the economic development bond grant of \$3 million to the City of Louisville. The motion was seconded by Senator Nunnelley and passed by voice vote. Representative Wayne abstained from the vote, citing a possible conflict of interest.

Mr. Don Mullis, Executive Director, Office of Financial Management and Economic Analysis (OFMEA), reported on three new bond issues. The first bond issue discussed was Kentucky Asset Liability Commission Project Notes, 1998 General Fund Series. Mr. Mullis said the purpose of the issue is to provide construction financing on an



Senator Nunnelley made a motion to approve the issuance of Kentucky Asset/Liability Commission Project Notes, 1998 General Fund Series, as amended. The motion was seconded by Senator Buford and passed by voice vote.

Next, Mr. Mullis discussed Kentucky Infrastructure Authority (KIA) Governmental Agencies Program Revenue Bonds, 1998 Series I. He said the purpose of these bonds is to provide permanent financing for completed Fund C Governmental Agencies Program water and sewer projects. Mr. Mullis said gross proceeds are \$8.9 million, and the bonds will be sold in February on a negotiated basis. The bonds have been rated A by Standard and Poor's, the interest rate is 5.5% with a 30-year term, and the annual debt service is \$600,000. Bond counsel is Peck, Shaffer & Williams; underwriter's counsel is Brown, Todd & Heyburn; underwriter is Merrill Lynch; and trustee is National City Bank.

Representative Marcotte made a motion to approve the issuance of Kentucky Infrastructure Authority Governmental Agencies Program Revenue Bonds, 1998 Series I. The motion was seconded by Representative Wayne and passed by voice vote.

The last bond issue Mr. Mullis discussed was KIA Wastewater Revolving Fund Program (Fund A) Revenue Bonds, 1998 Series E. He said the proceeds from this issue will provide the state's matching funds for the state's federal wastewater revolving fund program. Mr. Mullis said KIA is planning to issue \$7.4 million in General Fund supported bonds at an anticipated interest rate of 5.3% for a 20-year term. The bonds will be issued in February and are rated A by Standard and Poor's and A2 by Moody's. Bond counsel is Peck, Shaffer & Williams; underwriter's counsel is Brown, Todd & Heyburn; underwriter is Merrill Lynch; and trustee is National City Bank.

Representative Wayne made a motion to approve KIA Wastewater Revolving Fund Program (Fund A) Revenue Bonds, 1998 Series E. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Damron then called on Ms. Marilyn Eaton-Thomas, OFMEA, to discuss two loans for KIA. The first loan was a Fund A Wastewater Revolving Loan Fund for the City of Lewisport in Hancock County. She said a new wastewater treatment system will be constructed because the current system is hydraulically overloaded and 27 years old.

Representative Wayne made a motion to approve KIA's recommendation for a Fund A loan for the City of Lewisport. The motion was seconded by Senator Buford and passed by voice vote.

Next, Ms. Eaton-Thomas discussed a Fund A1 loan for the City of Paris. She said the Fund A1 loan comes from the Wastewater Revolving Loan Fund, but use of funds is restricted to planning and design. She said the city is requesting a Fund A1 loan in the amount \$402,667 to cover the full amount of the facility planning and one-half of the cost of the design of the project. She said the project will include work on the wastewater system to correct inflow and infiltration problems, addition of a new service area, and installation of a new connector between the existing sewer treatment plant and the water treatment plant. She said the city has increased its sewer user rates to cover the loan's debt service, and KIA recommends the loan at 3.8% for a term of five years, subject to the city submitting evidence of a funding source for the remainder of the design work.

Senator Nunnelley made a motion to approve the KIA Fund A1 loan to the City of Paris, subject to meeting the condition stipulated by KIA. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Damron said status reports for KIA Funds A, B, C, and E were enclosed in the members' folders.

Chairman Damron asked Senator Leeper to take over duties of the Chair for the next two agenda items. Senator Leeper called on Mr. Mullis to report on thirteen new SFCC issues: Ballard Co. - \$315,000 for renovations to the high school and the vocational school; Bourbon Co. - \$3,595,000 to refund 1987, 1988, 1990, and 1991 bonds; Boyle Co. - \$1,805,000 to refund 1989 bonds; Caldwell Co. - \$5,690,000 to refund 1987, 1989, and 1991 bonds; Erlanger-Elsmere Ind. (Kenton Co.) - \$6,650,000 to complete additions and renovations to the middle school; Grant Co. - \$2,320,000 to refund 1990 bonds; Greenup Co.-\$3,065,000 to complete renovations and additions to the elementary school; Johnson Co. - \$620,000 to refund 1989A bonds and \$1,010,000 to refund 1989B bonds; Magoffin Co. - \$1,705,000 to refund 1989 and 1991 bonds; Marshall Co. - \$5,565,000 to build an auditorium, gym, and stadium at the high school; Montgomery Co. - \$2,740,000 to refund 1991 bonds; and Rowan Co. - \$310,000 to refund 1990 bonds.

Senator Leeper said there were five new local school district bond issues with locally-funded debt service. Local school bond issues were reported for the following school districts: Anchorage Ind. (Jefferson Co.) - \$1,360,000 to build eight classrooms, four offices, and additional parking for an elementary school; Hopkins Co. - \$4,860,000 for renovations to the high school; Kentucky Interlocal School Transportation Association (KISTA) - \$4,700,000 for the purchase of 80 school buses for 31 participating school districts; Laurel County - \$3,475,000 to renovate and build additions to two elementary schools; and Morgan County - \$250,000 to reroof the high school. Only one district, Anchorage Independent, reported a tax increase (3.5¢) associated with its bond issue.

Senator Leeper said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said the updated monthly/weekly debt issuance calendar was enclosed in members' folders.

Chairman Damron then updated the Committee relating to its previous review of leasing issues. He said he was discussing possible leasing proposals with the Executive Branch. He then called on Ms. Mary Lynn Collins, Capital Projects and Bond Oversight Committee Staff Administrator, to discuss a survey conducted by staff regarding other states use of selection committees to award leases for office space. Ms. Collins said Committee staff worked with Mr. Jim Abbott, Director, Division of Real Properties, to survey all 50 states. She said 13 states reported routine use of selection committees and three states reported occasional use of selection committees. However, she said only a few states that use selection committees appear to be structured as independently as what the Attorney General (AG) is proposing for Kentucky. The AG's proposal calls for selection committees composed of Finance and Administration Cabinet merit employees, employees of the user agency, the Auditor's Office, and a private sector representative, probably an appraiser.

Ms. Collins said states indicating use of selection committees reported their committees are normally made up of staff from the central procurement agency and the user agency. They are used primarily to analyze lease proposals. She said a number of selection committees were formed because of concerns about fairness in the process. She said staff did not find any states with statutes requiring selection committees, but some do

Chairman Damron said he has prefiled two bills for the 1998 Session. One bill would amend statutes relating to the Parks Capital Maintenance and Renovation Fund; the other bill would establish a deferred maintenance account by statute. He said he considered both bills Capital Projects Committee bills since they are based on issues that surfaced during Committee discussions. Chairman Damron said Mr. Hintze worked with him on these bills. Chairman Damron added he is currently working on a bill to address contingency funds for authorized courthouse construction, an issue which the Committee discussed during the interim.

Chairman Damron said also enclosed in members' folders was a status report by staff relating to a recent meeting of the Program Review and Investigations Committee concerning university capital construction. Ms. Collins said the Program Review and Investigations Committee recently received a staff report regarding the university capital construction process. She said during the meeting, Armond Russ, Commissioner of the Department for Facilities Management, outlined plans by the Finance and Administration Cabinet to expedite the capital construction process. These plans include reducing the number of projects assigned to each project manager from 47 to 20-30; establishing new inspector positions; making changes in the architect/engineer selection committee process; and possibly allowing universities to manage their own construction for small maintenance construction projects under \$400,000.

Chairman Damron said the final information item concerned the announcement by the Governor that the state now has a Chief Information Officer. He said the appointment was made by personal service contract, and legislation will be introduced soon establishing that position by statute.

Chairman Damron the next meeting is tentatively scheduled for January 20.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded by Senator Buford and passed by voice vote. The meeting adjourned at 2:30 p.m.